

**LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
BOARD INVESTMENT COMMITTEE MEETING**

**Monday - June 9, 2003
9:00 a.m.**

The Louisiana School Employees' Retirement System's Board Investment Committee convened in the board room (Room 100) of the Louisiana School Employees' Retirement System Building, located at 8660 United Plaza Blvd., Baton Rouge, Louisiana. Ms. Jacobs called the meeting to order at 9:00 a.m. The Committee recited the Lord's Prayer and the Pledge of Allegiance. The Roll was called by Mrs. Stark.

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Members Present: Ms. Betty Jacobs, Chairman, Ms. Betty Crain, Mr. Larry Wilmer, Mr. Joe Seymour, Mr. Jeffrey Faulk, Mr. Warren Ponder - Secretary of State's Office, and Mr. Boyd "Zeke" Zitzmann.

Members Absent: Hon. John Kennedy - State Treasurer, Ms. Sylvia Myers, Representative Pete Schneider, Chairman - House Retirement Committee and Senator Lambert Boissiere, Jr. - Chairman - Senate Retirement Committee.

Staff Present: Mrs. Debra Dudley - Assistant Director, Mr. Randy Roche - General Counsel, Mrs. Julia LeBlanc - Chief Investment Officer, Mrs. Josie Meche - Investment Officer 2, Ms. Judy Wright - Public Information Director and Mrs. Laurie Stark - Executive Services Assistant.

Others Present: Mr. Donald Saxton - Segal Advisors, Inc., Mr. Kim Johnson - Investor Responsibility Support Services, Ms. Ruby Jolissaint, Mr. Earl Richard and Mr. Charles Hall.

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Ms. Jacobs announced to the committee that Mr. Roche was at the capital to testify before the committees on behalf of LSERS and that Mr. Cospier was also at the Capital at the request of Representative Schneider.

Mr. Donald Saxton arrived at 9:03 a.m.

EDUCATIONAL DISCUSSION OF SECURITIES LITIGATION AND DEMONSTRATION OF INVESTMENT SECURITIES LITIGATION SOFTWARE PACKAGE.

Mr. Kim Johnson, President of Investor Responsibility Support Services, Inc., gave an educational presentation regarding securities litigation and demonstrated a new investment software package that he developed to help pension funds keep abreast of any upcoming securities litigation. He discussed how securities litigation affects pension funds. He informed the committee that the small systems like this one can make a difference by taking an active roll in class action litigation. His software package would help

the fund keep track of what class action suit is being filed. It would also help the board to decide what would be the prudent action to take. He said he encourages funds to set up policies and procedures to ensure that there is a way of evaluating the impact of cases on the fund and to make sure that at the end of the case it recovers a settlement.

When asked by Mr. Seymour her opinion of the software, Mrs. LeBlanc said she believed it would help the system but also mentioned that in past conversations with Mr. Roche how they had tried to establish a manner of tracking securities litigation. Things like what cases were being filed and if there was a settlement made would the system receive what it was entitled to would need to be monitored on a regular basis. She felt that Mr. Roche and Mr. Cosper should give their evaluation of it to the committee at the July Investment Committee Meeting before a decision was made whether to purchase it or not. Mrs. LeBlanc also offered that the annual fee for the software could be paid for with soft dollars from the system's commission recapture program with Lynch, Jones and Ryan.

Mr. Ponder questioned Mrs. LeBlanc as to why she would not want to have investment transaction information available to be viewed at any time. Ms. LeBlanc responded by saying that she would prefer having the requesting firm contact the system ahead of time in order for Mr. Roche to have an opportunity to review the request and decide whether the request is legitimate and if the information should be released. Mr. Ponder asked the committee if a policy change needs to be made regarding what information should or should not be released and if it should be put on the agenda for the next meeting.

Mr. Johnson promised he would forward additional information regarding the various components of the software in order for the Trustees to review it before determining if this software would be beneficial to the fund. He said the price of the software would be \$25,000 per year.

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DISCUSSION WITH CONSULTANT

Review of Performance.

Mr. Saxton updated the committee on the performances of Trinity, Harbor Capital and Orleans Capital Management for the second quarter of 2003. He said he was pleased to see that Trinity's performance numbers have improved recently, but their numbers since an inception have a ways to go. Mr. Saxton said that Orleans has finally participated in the corporate bond upswing and has somewhat improved their performance numbers. They also need to continue their improvement. Harbor was put on probation last month. Mr. Saxton said that in the first quarter they managed to exceed their benchmark, but over the last two months they did not meet their benchmark by over 2% each month. He mentioned that Harbor's underperformance could have been caused by current management changes. Mr. Bill Peck will be soon be leaving Harbor. A letter has been requested from Harbor in order to provide the system with a list of the management changes that have taken place. Once it is received the committee may want to discuss what impact these management changes will have on the portfolio and what if any actions may need to be taken at the July Investment Meeting or a possible Special Board Meeting. Mr. Ponder asked that Segal bring to the next meeting the performance numbers for the one year, three year and five year periods and since inception for the three managers who are on probation.

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ON MOTION OF MR. SEYMOUR, SECONDED BY MR. ZITZMANN AND CARRIED, the committee accepted the report on the performances of Harbor Capital, Trinity and Orleans presented by Mr. Donald Saxton.

Other Business.

After reviewing current allocations to all asset classes, Mr. Saxton stated that \$20 million dollars should be taken from Northern Trust Quantitative Advisors in order to rebalance the portfolios and to pay retiree benefits for the second quarter.

STAFF REPORTS

Commission Recapture Report

Mrs. Meche reported for the period January 1, 2003 through March 31, 2003 that neither Orleans nor Schroder met their targeted commitment to Lynch, Jones & Ryan. The equity managers that met or exceeded their 25% target for the period of January 1, 2003 through March 31, 2003 were Energy Opportunities Fund, Harbor Capital, J & W Seligman, Trinity and Walter Scott. However, Brandywine, and Northern Trust Quantitative Advisors did not meet their targets. The total funds available for disbursement as of March 31, 2003 were \$267,173.85. Payments totaling \$41,981.14 have been made leaving a balance of \$225,192.41 available for disbursement.

Mr. Charles Hall and Mr. Randy Roche arrived at 11:45 a.m

ON MOTION OF MR. FAULK, SECONDED BY MR. WILMER, AND CARRIED the committee accepted the Commission Recapture report for the period of January 1, 2003 through March 31, 2003.

Northern Trust Securities Lending Report.

Mrs. LeBlanc reported that for the calendar year-to-date period ended April 2003, the gross income on securities lending was \$165,350.19. Northern Trust has received a fee of \$49,604.46. The fund had income returned to it in the amount \$115,745.73 or an average for the year of \$28,936.43 per month. Since the program has been in place with Northern Trust, the fund has earned \$4,096,464.36 or an average monthly income of \$35,933.90.

ON MOTION OF MR. SEYMOUR, SECONDED BY MR. ZITZMANN AND CARRIED, the committee accepted the Northern Trust Securities Lending Report.

Louisiana Brokers.

Mrs. Meche reported for the period of January 1, 2003 through March 31, 2003 that both Schroders and Orleans met their 10% target for the month. The only equity managers who met or exceeded their 10% minimum target was Harbor Capital and Walter Scott. The managers that did not meet their target were Brandywine, Energy Opportunities, J&W Seligman, Northern Trust Quantitative Advisors and Trinity. A total of \$167,796,106.70 par value and a total of \$25,771.59 equity commissions were directed during the time period ended March 31, 2003.

ON MOTION OF MR. ZITZMANN, SECONDED BY MR. FAULK AND CARRIED, the committee accepted the Louisiana Broker Report for the period of January 1, 2003 through March 31, 2003.

Securities Litigation.

Report of Receipts.

Mrs LeBlanc reported to the committee that LSERS has received a total of \$25,965.45 in cash, \$578.00 in Par Value and 188 shares of stock as of April 2003 as settlements from securities litigations.

ON MOTION OF MR. ZITZMANN, SECONDED BY MR. WILMER AND CARRIED, the committee accepted the report from staff regarding receipts received in current securities litigation.

Current Case Review.

Mr. Roche informed the committee that LSERS has entered into two new class action suits as lead plaintiffs.

ON MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN AND CARRIED, the committee accepted the securities litigation reports.

OTHER BUSINESS.

Legislative Update.

Mr. Roche updated the committee about what has happened to the various bills that LSERS has introduced and to those that will affect the system in the current legislative session for 2003. He reported that four bills have been taken from the House floor to the Senate floor. He told the committee that he will update them at a later date as to what happens to those bills after the hearings. Mr. Hall offered that many of these bills that have a cost involved are dying on the house floor. Mr. Hall was then questioned by Mr. Faulk on whether there are any alternate ways the system could possibly give retirees a COLA. Mr. Hall then offered that some changes would have to be made to the current law or the Trustees would have to lobby the legislature directly to have them appropriate funds for a COLA. Mr. Hall mentioned that some funds are considering an alternative source of funding for COLA's by increasing the employee contributions to prefund the COLA. The committee members asked that both Mr. Hall and Mr. Roche come back during the July Investment Committee Meeting to help them get a better understanding of the bills that are before the current legislature and how they can better prepare for next year's legislative session.

ON MOTION OF MR. ZITZMANN, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Legislative Update from Mr. Roche.

Mrs. Dudley informed the committee that when the board decided to switch custodian banks, the process of changing over to that new bank brought about some changes. One of those being the purchase of additional software, with board approval, that will make the retiree checks more secure against forgeries. In September, the retirees' checks will have a different look and their social security numbers will be removed. This will make their checks even more secure. The retirees will be notified of these changes with a notice included in the envelope with their check and through the system's newsletter.

Mr. Zitzmann questioned Mrs. Dudley concerning the addition of personnel in the Retirement department with reference to providing estimated benefits for new retirees. Mrs. Dudley responded by saying that the board agreed at their last full board meeting to allow the staff to implement the estimated benefit program in about eighteen months.

ON MOTION OF MR. ZITZMANN, SECONDED BY MR. SEYMOUR AND CARRIED, the committee agreed to adjourn.

The meeting adjourned at 12:32 p.m.

Patrick Cospers, Director

Betty Jacobs, Chairperson